Amendments to References to the Conceptual Framework in IFRS Standards
Cover Note

Objective

1 The purpose of this session is to discuss and agree to recommend to the EFRAG Board a draft comment letter on *Amendments to References to the Conceptual Framework in IFRS Standards,* issued by the IASB on 29 March 2018.

Background

2 On 28 May 2015 the IASB published for public comment the Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework* (Proposed amendments to IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32) at the same time as the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting*.

3 The purpose of the project was to update the references to, and quotes from, the 2010 version of the Conceptual Framework or the 2001 version. In addition, the IASB has removed a number of footnotes that refer to changes made to the Conceptual Framework in 2010.

4 On 23 December 2015 EFRAG published its comment letter in response to ED/2015/4. In its comment letter, EFRAG expressed concerns about possible unintended effects resulting from the proposed amendments and considered that the amendments should remain editorial in nature and therefore not require any transition provision. EFRAG further questioned the feasibility and the enforceability of the amendment to IAS 8 as many different factors may have influenced the design of accounting policies, i.e. analogy to existing IFRS or other GAAP, and the exclusive link to the Conceptual Framework may be difficult to establish. It therefore recommended that the IASB should perform an effects analysis before making any changes as a result of the revised Conceptual Framework. Furthermore, EFRAG could not support retrospective application without the possibility of assessing the practicality of the requirement.

5 Following the consultation, the IASB Staff tried to identify the potential effects on preparers' accounting policies of replacing references to the Framework with references to the Conceptual Framework in IAS 8. The work of the IASB staff involved reviewing the scope exclusions in IFRS Standards and reaching out to preparers and accounting firms to understand whether and when in practice entities develop their accounting policies by reference to the Conceptual Framework. The IASB Staff requested information from those preparers who responded to ED/2015/4 and ED/2015/3, members of the Global Preparers Forum and a sample of international accounting firms.

6 Based on the outreach, the IASB Staff concluded that the scope of any changes to preparers' accounting policies as a result of replacing references to the Framework with references to the Conceptual Framework in IAS 8 is likely to be limited for the following reasons:

(a) most preparers do not develop accounting policies by reference to the Framework because most transactions are:

(i) covered by the existing IFRS Standards; or

(ii) accounted for based on other sources referred to in IAS 8; or

(iii) exempted from applying paragraph 11 of IAS 8; and

(b) in some areas the revised concepts will suggest similar accounting outcomes to the existing concepts.

7 Based on the consultation, the IASB decided:

(a) Not to update the reference to *Framework for the Preparation and Presentation of Financial Statements* to the revised Conceptual Framework in IFRS 3 *Business Combinations*. IFRS 3 contains references to the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements*. Updating this reference to the revised Conceptual Framework could change which assets and liabilities qualify for recognition in a business combination. In some cases, the post-acquisition accounting required by other IFRS Standards could then lead to immediate derecognition of assets or liabilities recognised in a business combination, resulting in 'Day 2 gains or losses' that do not depict an economic gain or loss.

(b) To reduce cost of preparers and users by requiring that an entity that does not apply IFRS 14 *Regulatory Deferral Accounts* (which is not endorsed in the EU) and uses the Conceptual Framework to develop accounting policies for regulatory account balances in accordance with IAS 8, should keep on using the concepts in the *Framework for the Preparation and Presentation of Financial Statements* and not the revised Conceptual Framework. The IASB is developing a new Standard on rate-regulated activities. If the reference to the Conceptual Framework had been updated entities might have needed to revise their accounting policies twice within a short period of time. To prevent disruption for users of financial statements of entities that conduct rate-regulated activities and for the entities themselves, the IASB decided to prohibit the use of the revised Conceptual Framework to develop accounting policies for regulatory account balances.

(c) To reduce the cost of transition for preparers by only requiring entities to apply the changes retrospectively to the extent that this would not be impracticable and would not involve undue cost or effort.

Questions for EFRAG TEG

8 Does EFRAG TEG recommend any changes to the drafted draft endorsement advice (Paper 02-02) or the invitation to comment (Paper 02-03)? If so, what changes should be made?

Agenda Papers

9 In addition to this cover note, agenda papers for this session are:

(a) Agenda paper 02-02 – Draft endorsement advice on Amendments to References to the Conceptual Framework in IFRS Standards;

(b) Agenda paper 02-03 – Invitation to comment on draft endorsement advice on Amendments to References to the Conceptual Framework in IFRS Standards; and

(c) Agenda paper 02-04 – IASB Amendments to References to the Conceptual Framework in IFRS Standards – Standard (for background only).